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The North American Third Party Logistics Industry In 2011: The Provider CEO Perspective

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INTRODUCTION

The global marketplace for third party logistics (3PL) services stabilized somewhat during 2010, reflecting improving economic conditions. The larger 3PLs again focused on servicing an expanding market, while their financial situation generally improved. Service offerings expanded; many of those companies began experimenting with the use of social media tools; and it appeared a period of business as usual had begun. However, those developments were stunningly interrupted by the Japanese earthquakes and tsunami which had far-reaching impacts on supply chains around the world. The disaster not only impacted the customer base of many of the largest 3PLs in the industry, but also the logistics service providers themselves.

This paper, which is based on a survey of the CEOs of 20 large 3PLs serving North America, was conducted in mid-2011 and focused on the state of the North American marketplace for 3PL services at that time. This was the 18th iteration of this annual survey. The authors conduct similar annual surveys in Europe and the Asia-Pacific region.

The 2011 survey focused on a variety of issues, including the key marketplace dynamics in the North American 3PL industry, the industry's response to the earthquake/tsunami, the industry's commitment to environmental sustainability, its expanded use of social media tools, and a wide range of other aspects of the industry's current status and future prospects in the region.

The CEO of each of the companies included in the survey was contacted by telephone or email and asked to participate in a web-based survey. An initial target group of 20 of the 50 largest 3PLs in North America was contacted, and the CEOs of all those companies agreed to participate. However, only 17 CEOs subsequently completed the survey online. Exhibit 1 lists the companies that participated in the 2011 North American survey.

Some questions were not answered by all CEOs due to individual company policies concerning financial disclosure. Further, in a number of instances, average industry data is presented in the paper, but there is often substantial variability around those averages. This variability reflects a number of factors, including differences in company strategies, operating policies and market segments served.

Revenues and Profitability

The 2011 North American survey addressed several 3PL provider revenue and profitability issues, and each is discussed below.

Annual Provider Revenues. Seventeen companies reported revenue data in responding to the survey. Collectively, these companies generated approximately \$19 billion in North American revenues during 2010, with four companies reporting 2010 revenues in excess of \$1 billion. The annual revenues for 2011 survey participants averaged \$1.114 billion.

Success in Meeting Growth Projections. The CEOs were also asked about the success of their companies in meeting their North American revenue growth projections during 2010. Three CEOs reported their companies exceeded company revenue growth projections for the year; 12 indicated their companies met their projections; and two reported their companies failed to meet their projections. Reflecting improved economic conditions, these results were quite different than those reported in the 2010 survey in which nine of the 16 companies reported they failed to meet their projections during 2009.

Company and Industry Profitability. The CEOs were next asked to categorize the profitability of their companies' North American business units during 2010. Three CEOs said their companies had been *very profitable*; 12 said *marginally profitable*; and one reported his company had *broken even*. None reported their companies had been *unprofitable*.

CEO views were also solicited concerning the profitability of the North American 3PL industry as a whole in 2010. Thirteen believed the industry was *marginally profitable*, and four believed the industry had *broken even* for the year. In contrast, in the 2010 survey, seven of the 16 respondents categorized the industry as *marginally unprofitable* during 2009.

Mergers and Acquisitions (M/A)

While there has been a worldwide consolidation movement in the 3PL industry in recent years, the pace of that movement slowed considerably in North America during the past year. In fact, only two of the 17 companies involved in the survey reported their companies made one or more acquisition during 2010, collectively acquiring two smaller 3PLs. The respondents expect acquisitions to play a relatively modest role in company revenue growth during the next year. On average they expect acquisitions to generate 8.82 percent of their revenue growth, and 12 respondents indicated they do not expect any of their companies' growth over that time period to come from acquisitions.

Introduction of New Services and Consulting Services

Again reflecting improving economic conditions, 10 CEOs indicated their companies had introduced new services during the past year. Those service offerings took a variety of forms and included the following:

- Reverse and repair logistics for mobile telephones
- Test, repair and refurbishing wireless devices
- Palletized small package service
- Flexible warehouse space program
- Consulting services
- Enhanced purchase order management services

- Service offerings in the chemical industry
- Repackaging and relabeling services in the health care industry
- New transportation management services.

Green/Environmental Sustainability Issues

A wide range of environmental sustainability topics has been incorporated into the last four North American surveys. The data generated in those surveys have shown a very strong commitment to the pursuit of “green” goals by those companies, and that commitment was maintained throughout the global economic downturn. This continuing commitment to those goals was again demonstrated by the responses to the 2011 survey.

Expansion of Existing Sustainability Programs. Ten of the 17 companies involved in this year’s survey reported they expanded their existing sustainability programs during the past year. Those expansion efforts typically involved such things as making carbon calculators available to more customers, increasing resources dedicated to existing programs, expanding alternative fuel fleets, expanding company involvement in the EPA’s SmartWay program, and developing more sophisticated tools for measuring emission levels.

New Sustainability Initiatives. Eight of the 3PLs also reported starting new sustainability initiatives during the past year. Among the more interesting initiatives were introduction of:

- New trailer skirts on company trucks
- Use of solar energy in company facilities
- Use of wind energy at company buildings
- Use of more energy efficient T-5 lighting in warehouses
- Introduction of natural gas-powered trucks into company operations
- Institution of “no idling” policy at all logistics centers
- Mandated use of green cleaning supplies at all company facilities

Respondents were also asked to identify the most significant environment sustainability development that occurred within their companies during the past year. Their responses clustered into several areas. Four mentioned company efforts to enhance the ability to track, collect and analyze related data, the same number focused on operational changes such as network optimization efforts and the establishment of DC bypass programs. Three others focused on technological changes, such as refueling and the use of low power, auto-off lighting.

Customer Interest in Sustainability Issues. Those surveyed were asked several questions about the degree of customer interest in environmental sustainability issues. They were first asked what percentage of their existing customers have asked them to analyze their existing supply chain practices in terms of environmental impact/cost. On average, the CEOs indicated 7.9 percent of their existing customers did so, but there was a very wide range of responses.

Those surveyed were also asked how frequently the green/environmental sustainability capabilities of their companies were a major factor in determining whether they won new contracts or extended existing contracts. None of the CEOs said *very frequently*; two said *frequently*; and 15 said *infrequently*.

The commitment of these 3PLs to environmental sustainability improvements continues, but their customer base is still primarily cost and service-driven.

The Japanese Earthquakes and Tsunami

The CEOs were asked if the recent tsunami and earthquakes in Japan had impacted their operations in North America, and eight of 17 said that they had. When eight were asked to explain the nature of that impact, most focused on related disruptions of customer supply chains, particularly in the automotive industry several CEOs highlighted specific company impacts, including such developments as declining freight volumes into Japan, a drop in intermodal volume coming from Japan through West Coast ports, and challenges related to finding solutions for clients whose links to Japan had been disrupted. It's interesting to note that none of the eight companies reported making any operational changes within their companies due to the natural disaster, which may have been a function planning prior to the event. In fact, 15 of the 17 companies reported they had business continuity plans in place prior to the tsunami/earthquakes, and all 15 reported that those plans covered responses to disasters. When asked how important those continuity plans were in guiding company responses to the disaster, four CEOs said *very important*; five said *important*; and six said *not important*. Three CEOs reported that following the disaster their companies put additional contingency plans in effect.

When asked if their companies had learned any lessons throughout the process, 10 CEOs indicated the following:

- Planning is critical, but sharing processes and communicating effectively enabled us to respond quickly
- Preparedness and a well-structured contingency plan are invaluable
- Flexibility in modal and carrier selection is necessary to respond to such disruptions
- A dedicated team should manage a comprehensive business continuity plan—these can't be managed as a side activity

Fourteen CEOs said their North American customers had been impacted by the tsunami/earthquakes. While eight said less than 10 percent of their customers had been impacted, others put those numbers closer to 50 percent. The CEOs were next asked to identify the industries hit hardest by the disaster. Thirteen identified the automotive industry; 10 mentioned the electronics/high-tech industry; two cited industrial manufacturing; and one mentioned specialty chemicals. Those surveyed were also asked to identify the most significant consequences for their customers. They emphasized the following: disruption of supply (mentioned by 14 respondents), reduced production (12), disruption of lean and/or JIT manufacturing programs (8), transportation disruptions (6), supplier failure (5), loss of sales in Japan (4), and loss of facilities in Japan (4).

The 3PL executives were asked about the most important lessons their customers should have learned from the disaster. Their responses were quite varied and included the following:

- A supply chain is very fragile and can be easily disrupted
- We should have a disaster recovery plan (many didn't)—mentioned by seven CEOs
- It is important to work with logistics service providers that have the scope, resources and experience to manage the many variables such an event generates
- Our supply chain should be more diversified
- We should audit our suppliers more frequently
- We should investigate alternative transportation capabilities in our core lanes.

The 3PL providers were then asked, "Based upon your interaction with your key customers, what impact do you believe this disaster is likely to have on their future supply chain strategies and practices?" Their responses clustered in several areas. Five suggested their customers were likely to pursue greater supply chain diversification by adding

redundant suppliers. Three believed they would be more active in planning for supply chain disruptions. Greater customer emphasis on near-shoring, accumulation of more safety stock, greater diligence related to single source suppliers, and more geographical dispersion of manufacturing and supply were each mentioned twice.

3PL Use of Social Media

The use of social media has grown dramatically during the past several years, and the related tools are increasingly being used in business-to-business and business-to-consumer settings. As a result, this year's North American survey contained a number of questions concerning that topic. The results of those questions are shown summarized in Table 2.

Facebook is a social networking service and website established by Facebook Inc., in 2004. It has more than 800 million users. As shown in the table, 10 North American 3PLs reported having company Facebook pages. The content of those pages varies substantially, but they typically include information on company background, discussion of service offerings and markets served.

A blog is a type of website or part of a website that is typically updated frequently, has current content, and tends to be news-oriented. Four CEOs reported their companies have public-facing blogs, all of which were created between 2009 and 2011. Three companies allow comments on their blogs. When asked about the general purposes of those blogs, the executives gave a wide range of answers, including such purposes as providing a resource for employees, customers and suppliers; educating various parties concerning the company's mission, strategy and commitment to sustainability; to position the company as an industry expert; and a means of updating various audiences on the company's business activities. The CEOs were also asked about the topics typically covered in company blogs. The executives mentioned such topics as the company's carbon footprint, reviews of regulatory changes, environmental sustainability tips, economic data about the various modes of freight transportation, customer success stories, and thought-leadership articles.

LinkedIn is a business-oriented social networking site launched in 2003. Twelve CEOs reported corporate LinkedIn accounts mostly focusing on company awards, new stories and industry trends.

Twitter is another social networking tool that allows users to send and read text-based postings of up to 140 characters. This social networking tool has been used by eight of the 3PLs involved in the survey. Several companies reported their tweets have been very useful as a means of attracting new employees through job postings.

Finally, eight CEOs reported that their companies post videos on YouTube, a video-sharing website launched in 2005. Those companies have generally used such postings to highlight their services, case studies involving current customers, and the operation of new company facilities.

Nine CEOs believe the use of social media is vital to brand-building in the industry, but only five believe it is vital to building customer loyalty. When asked to identify the broader goals their social media initiatives to date, six said they were used to connect with customers; four mentioned their use in interacting with their employees; and two reported using the tools to attract new employees. The CEOs whose companies have been actively using social media were then asked to describe its impact to date. The impact was typically cited as being positive but limited. However, 13 of the 17 CEOs indicated they believe the use of social media will become increasingly important in the 3PL industry.

Capacity Shortages

There has been considerable discussion within the North American logistics community about the possibility of shortages of transportation capacity in certain markets as the global economy recovered. In many markets this capacity dropped as carriers attempted to reduce costs and bring about more demand/supply equilibrium. The CEOs were asked if capacity shortages had emerged in any of the markets they serve, and 11 of 17 said "yes." They were

then asked in which markets those shortages had emerged and the most frequently mentioned market segment was truckload services, which was mentioned by six CEOs. Three others cited driver shortages in certain markets, and the same number focused on a shortage of Eastbound Transpacific ocean carrier capacity. Intermodal trucking services in lanes without backhauls, and northbound trucking services from the Mexican border were each mentioned by one respondent.

The CEOs were then asked what steps, if any, were taken by their companies to protect their customers against those shortages. Among the steps taken were broadening the base of carriers used on behalf of clients, development of alternative lanes for traffic, locking in capacity through contracts with key carriers, increased recruiting and pay increases for drivers in 3PL fleets, and shifting truck freight to intermodal services.

Customer Response to Fuel Price Volatility

There has been substantial fuel price volatility in the North American marketplace during the past several years. As fuel prices rose, triggering increasing transportation costs, many 3PL customers made changes in their transportation strategies to limit the impact of those increases on their operations. We asked the CEOs if any of those changes had been “institutionalized” by their key customers or if customers had returned to earlier strategies as fuel prices fell. Interestingly, 10 said some of those changes had been institutionalized. Three mentioned shifts from truckload to intermodal services, and two mentioned some shift from international air to ocean service. Among the changes mentioned by one respondent were increasing order size to shift from LTL to truckload service, increased interest in pooling and freight consolidation efforts, a shift from express air to deferred air, some hedging on fuel purchases, relocation of distribution centers, and more aggressive negotiating on fuel surcharges (attempting to share risk with the 3PLs).

Current Status and Future Prospects of the Industry

In each annual North American survey, the CEOs are asked a series of questions concerning their perceptions of the current status and future prospects of the 3PL industry in the region. Specifically, they are asked to identify the most important 3PL industry dynamics, opportunities and problems. They are also asked to indicate the most important developments within their companies and within the 3PL industry during the past year.

Industry Dynamics. The CEOs were asked to identify and rank order the three most important industry dynamics affecting the North American 3PL marketplace in 2011. A first-place mention was given three points; a second-place mention was given two points; and a third-place mention was given one point. These points were used in calculating the total weighted points shown in Table 1.

According to the respondents, the most significant dynamic operating in the North American 3PL marketplace was *economic volatility*, with 20 total weighted points and five first-place mentions. In second place with 18 total weighted points and three first-place citations were rising costs (including fuel price increases). *Continued downward pressure on pricing* ranked third with 13 total weighted points, and three first-place mentions. It should be noted that this dynamic ranked first in the North American survey in five of the last seven annual surveys. It continues to be a significant problem in the marketplace, but its impact seems to have been lessened by 3PL strategies that have been addressed in our previous surveys. In particular, more collaborative relationships between service providers and users, gain-sharing agreements, and “unbundling” of service offerings seem to be having an effect in lessening this problem.

Industry Opportunities. In the survey, the CEOs were asked to identify the three most significant opportunities for 3PL service providers in the North American market, and as in previous surveys, there was little consensus. In fact, while there were 51 “Top 3” choices available (3 x 17 respondents), only two opportunities were mentioned more than three times. Opportunities related to technology enhancements were mentioned six times, and opportunities related

to more collaborative relationships with customers were cited by four CEOs. Several opportunities were mentioned twice, including those related to potential acquisitions, expansion of value added services, increasing NAFTA traffic, and expansion of international services.

Industry Problems. When asked to identify the three most important problems facing their companies in the North American 3PL industry, CEOs identified a broad range of problems. According to the CEOs, the North American 3PL industry's two most important problems were *continuing downward pressure on prices*, which accounted for 15 total weighted points and three first-place mentions; and *finding and keeping management talent*, which registered the same number of point and first-place mentions. It should be noted that the pricing issue had been ranked as the region's top problem in both the 2009 and 2010 North American surveys. The talent issue was ranked as the region's second most important problem in the 2010 survey. *Fuel price volatility* and *difficulties related to meeting customer expectations* each registered ten points. *Economic uncertainty* and *rising costs* accounted for eight and seven points respectively.

Most Significant Development in Regional 3PL Industry in Past Year. When asked to identify the most significant development in the regional 3PL industry during the past year, the CEOs tended to put greatest emphasis on economic conditions. While five cited the slow economic recovery, four others expressed concerns that signs indicated another recession might occur. Two others emphasized intensification of price-driven competition in the industry, and the same number focused on capacity shortages in the truckload segment of the trucking industry. One suggested environmental sustainability capabilities had become a market differentiator, and another cited rising fuel costs as the most significant development in the past year.

Major Changes Expected During the Next Three Years. The CEOs were then asked what major changes they expected to take place in the North American 3PL industry during the next three years and fifteen responded to this question. As had been the case in our seven most recent annual North American surveys, the merger and acquisition movement dominated their thinking, and six CEOs indicated they believed the consolidation movement would accelerate in North America during the next three years. No other change was mentioned more than once. Among those possible changes mentioned once were "money comes back into the industry," an increase in collaboration among the components of customer supply chains, erosion of the industry's talent base, greater focus on "green issues," and further deterioration of America's transportation infrastructure, particularly with respect to ports.

Estimated Company and Industry Revenue Growth Rates

Finally, the CEOs were asked to estimate annual company and industry revenue growth rates for the one and three-year periods, and 16 CEOs provided those estimates. Their projections are shown in Tables 2 and 3 and discussed below.

In terms of company growth projections, the CEO estimates were very similar to those registered in the 2010 survey. The average company revenue growth projection for the next year was 10.81 percent (10.4 percent last year), with the projected three-year company revenue growth average being 10.25 percent (10.6 percent last year). However, once again, as we have observed in previous surveys, the estimates varied significantly from company to company, with the one-year company projections ranging from 4 percent-17 percent, and three-year projections ranging from 6 percent-15 percent.

In terms of industry growth projections, the CEOs projected the regional industry's one-year revenue growth rate to average 6.88 percent, down slightly from last year's 7.3 percent projection. The three-year industry projections averaged 8.0 percent, up slightly from last year's 7.88 percent projection. The individual CEO projections of the industry's growth rates ranged from 3 percent- 15 percent for both the one-year and three-year periods.

Summary

This paper has discussed the results of a 2011 survey of the CEOs of 17 of the largest 3PL service providers operating in the North American marketplace. Collectively, those companies generated approximately \$19 billion in North American 3PL revenues during 2010. None of the companies reported being unprofitable in 2010.

Reflecting improving economic conditions, the CEOs were quite optimistic concerning the revenue growth prospects of their North American operations and the regional 3PL industry for both the one- and three-year periods.

Many of these companies expanded existing environmental sustainability programs and launched new sustainability initiatives during the year.

Less than half of the 3PLs involved in the survey indicated that the Japanese tsunami and earthquakes impacted their operations in North America. However as there were clear signs those companies were somewhat prepared for such events, in that 15 CEOs reported their companies had business continuity plans in effect at the time of the disaster, and all of those plans covered responses to natural disasters. Fourteen CEOs said their North American customers had been impacted by the disaster, with the most significant impacts being disruption of supply, reduced production, disruption of lean and/or JIT manufacturing plans and transportation disruptions. In response, the 3PLs expect their customers to broaden their supply base, accumulate more safety stock, and geographically diversify their sourcing and production patterns.

Many of the 3PLs involved in the survey have begun using social media, such as Facebook, LinkedIn and Twitter, and they also blog and post company videos on YouTube. The impact of these social networking efforts on the regional 3PL industry has been limited to date and primarily focused on brand-building. Most of the CEOs believe the use of social media will become increasingly important in the 3PL industry. The stage of adoption/use of these tools is quite similar to the use of the Internet by these companies in 1996.

Economic volatility, rising costs and continued downward pressure on pricing were identified as the three most important North American market dynamics. The most important opportunities were identified as *technology enhancement* and *more collaborative relationships with key customers*. The CEOs identified the most important problems facing their companies in the North American 3PL marketplace as *continuing downward pressure on prices*, and *finding and keeping management talent*.

Implications

We expect the North American market for 3PL services to continue to grow not only in response to improving economic conditions, but also as a reflection of the growing trend toward the outsourcing of business activities in general. While the consolidation movement in the industry slowed with deteriorating economic conditions, we expect this movement to gain momentum as the economy recovers. However, both of those observations depend upon improvements in the global economy which by no means certain at this point in time.

The supply chains of many of the companies served by the 3PLs involved in this survey were severely impacted by the Japanese earthquakes and tsunami, especially in the automotive and electronics/high technology industries. Many of those customers were clearly not prepared for such an event, and they are highly likely to focus greater attention on business continuity planning in the future. As they do so, these plans are likely to incorporate significant changes in sourcing and manufacturing strategies. The 3PLs serving the region can play an important role in helping their clients

to develop those strategies, which will no doubt change their service requirements. In some cases, 3PLs will have to modify their service offerings to meet these new market realities.

The use of social media by 3PLs will accelerate and become an important element of the branding, recruiting and communications strategies of these companies. The 3PLs may find that the pace at which they adopt and refine the use of these tools may become an important source of market differentiation.

The industry's efforts in the area of environmental sustainability are admirable and will likely become more of a differentiating factor if the economic recovery continues and customers have less focus on short-term cost reductions.

Exhibit 1

Third Party Logistics Companies Included in the 2011 North American 3PL Industry CEO Survey

Agility Logistics	Kuehne + Nagel Logistics	Schneider Logistics
Cardinal Logistics	Menlo Worldwide Logistics	Transplace
CAT Logistics	MIQ Logistics	UPS Supply Chain Solutions
DSC Logistics	Yusen Logistics	UTi
DHL Exel Supply Chain	Penske Logistics	Werner Logistics
Genco	Schenker	

TABLE 1

CEO Perception of the Three Most Important North American 3PL Industry Dynamics, 2011

Industry Dynamic	# of CEOs Ranking It #1	# of CEOs Ranking It #2	# of CEOs Ranking It #3	Total Weighted Points
Economic volatility	5	1	34	20
Rising costs	3	3	3	18
Continuing downward pressure on pricing	3	2		13
Regulatory changes		2	2	6

TABLE 2
3PL Use of Various Social Media Tools, 2011

Social Media Categories	Number of Companies Using (n=17)
Has a Facebook page	10
Has a public facing Blog	4
Has company LinkedIn account	12
Has company Twitter account	8
Posts company videos on YouTube	8

TABLE 3
2011 Survey CEO One and Three-Year Revenue Growth Projections for Their Companies, North America, and Comparisons with 2010 Projections

One-Year Company Projection, 2011	One-Year Company Projection, 2010	Three-Year Company Projection, 2011	Three-Year Company Projection, 2010
10.81%	10.4%	10.25%	10.6%

TABLE 4
2011 Survey CEO One and Three-Year Revenue Growth Projections for the North American 3PL Industry, and Comparisons with 2010 Projections

One-Year Industry Projection, 2011	One-Year Industry Projection, 2010	Three-Year Industry Projection, 2011	Three-Year Industry Projection, 2010
6.88%	7.3%	8.0%	7.8%